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CENTRAL INTELLIGENCE AGENCY

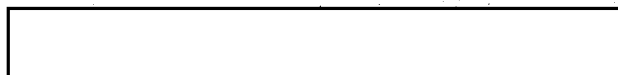
Memorandum



THE SITUATION IN VIETNAM

Information as of 1600
5 July 1966

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HIGHLIGHTS

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In Saigon, the ruling Directorate announced today the formation of a 79-man Civilian-Military Council, which will assist the Directorate in its ruling functions.

I. The Military Situation in South Vietnam:
Operation MACON has been initiated in an area about 17 miles southwest of Da Nang (Para. 1). Operation FORT SMITH ended in Hau Nghia Province (Para. 2). Enemy prisoners indicate effectiveness of B-52 strikes (Para. 5).

II. Political Developments in South Vietnam:
The Directorate announced the formation of a 79-man Civilian-Military Council (Paras. 1-3). In a show of good will, the mayor of Saigon released 283 persons detained for demonstrating against the government (Para. 4). US officials tend to view the economic situation as still fluid following last month's major reforms (Para. 5).

III. Military Developments in North Vietnam:
North Vietnam's surface-to-air missiles continue ineffective, with 25 to 27 misses on 5 July (Paras. 1-3). Another encounter between US aircraft and North Vietnamese naval craft occurred on 5 July (Paras. 4-5).

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IV. Other Communist Military Developments:
There is nothing of significance to report.

V. Communist Political Developments: North Vietnamese Vice Premier Pham Hung has provided a candid analysis of the major difficulties caused in 1965 by US air strikes (Paras. 1-5). [REDACTED]

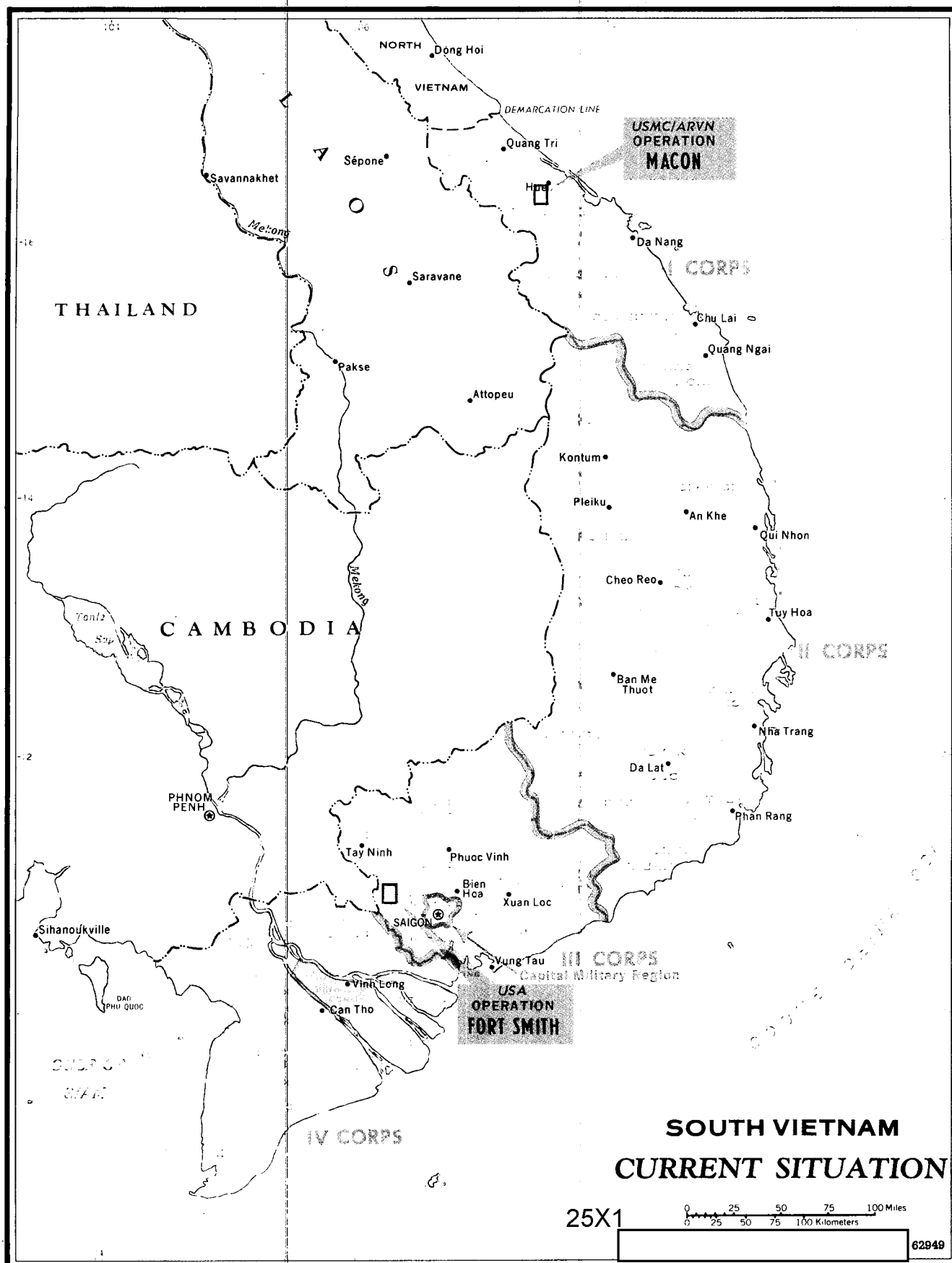
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I. THE MILITARY SITUATION IN SOUTH VIETNAM

1. A US Marine company, conducting a clearing operation 17 miles southwest of Da Nang yesterday, encountered an estimated 300-man Viet Cong force. Reinforcements were flown in by helicopter while US jet aircraft hit the enemy positions with rocket fire and napalm. A total of 72 Communists were reported killed in the action. Nine Americans were killed and 24 wounded. Today, the marines were reinforced by a battalion of South Vietnamese soldiers and the new operation has been named MACON.

2. US Operation FORT SMITH, an area security pacification operation that was conducted in Hau Nghia Province by a battalion of the US 25th Infantry Division, has been terminated. This operation began on 2 June in an area about 20 miles northwest of Saigon. Final casualty reports indicate that five Americans were killed and 28 wounded. A total of 19 Viet Cong were killed and six captured.

3. A local South Vietnamese operation began today in an area 75 miles southwest of Saigon in Vinh Long Province. Heavy contact was made with an estimated Viet Cong battalion, and the original force of one South Vietnamese battalion and two Regional Force battalions was reinforced with a second South Vietnamese battalion. The US Army is providing helicopter support for the operation, and lost one helicopter early today. Initial reports of casualties indicate three Americans killed (in the helicopter), 43 South Vietnamese killed, and 22 wounded. A South Vietnamese body count indicates 185 Viet Cong have been killed.

B-52 Strike Effectiveness Report

4. Elements of the US 101st Airborne Division reported that a B-52 Stratofortress strike on 13 June in support of Operation HAWTHORNE was apparently very effective. Two prisoners from the 24th North Vietnamese Regiment--which had three battalions

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in the strike area before, during, and after the raid--reported that as many as 30 men were killed by the strike. The captives survived by hiding in "spider" holes although they suffered some shock and temporary deafness. The report also stated that enemy resistance in the area of the strikes was very effective and determined prior to the B-52 raid, but very weak and completely ineffective after the strike.

5. In contrast to the effectiveness of the strike against personnel, physical damage was not very great. Ground follow-up operations by US forces revealed that many fortifications--such as tunnels, bunkers, trenches, and spider holes--which did not receive direct hits remained virtually intact. Spider holes located as near as 15 meters to bomb craters were only slightly damaged.

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II. POLITICAL DEVELOPMENTS IN SOUTH VIETNAM

Civilian-Military Advisory Council Announced

1. Premier Ky and Chief of State Thieu inaugurated a 79-man Civilian-Military Council during a ceremony in Saigon on 5 July. The council's function is to advise the government on the political, economic, social, and cultural aspects of "nation building." The council, consisting of 59 civilians and 20 military personnel, is empowered to meet at least once a month. It may be dissolved by Directorate Chairman Thieu upon such a decision by the Directorate.

2. In his speech inaugurating the council, Ky cited encouraging developments in the military picture over the past year, and then called on "everyone" to assist the government in coping with economic problems, rural construction, and the building of democracy.

3.

[redacted] the preliminary list of civilian nominees was drawn up under the guidance of General Chieu, the secretary general of the Directorate. Those nominees included 16 members of the election law drafting committee, together with persons prominent in various religious and political groups or in social and cultural affairs. According to a press account, the Unified Buddhist Association is not represented on the advisory council.

Antigovernment Demonstrators Released

4. During two ceremonies on 4 July, 283 persons were released from custody after being detained for participating in antigovernment demonstrations. A total of 101 monks and nuns were among those released by the mayor of Saigon directly to Buddhist Institute Chairman Thich Tam Chau, an apparent attempt to reinforce the position of the Buddhist moderates, who are more willing to negotiate with the government than is the Tri Quang extremist faction.

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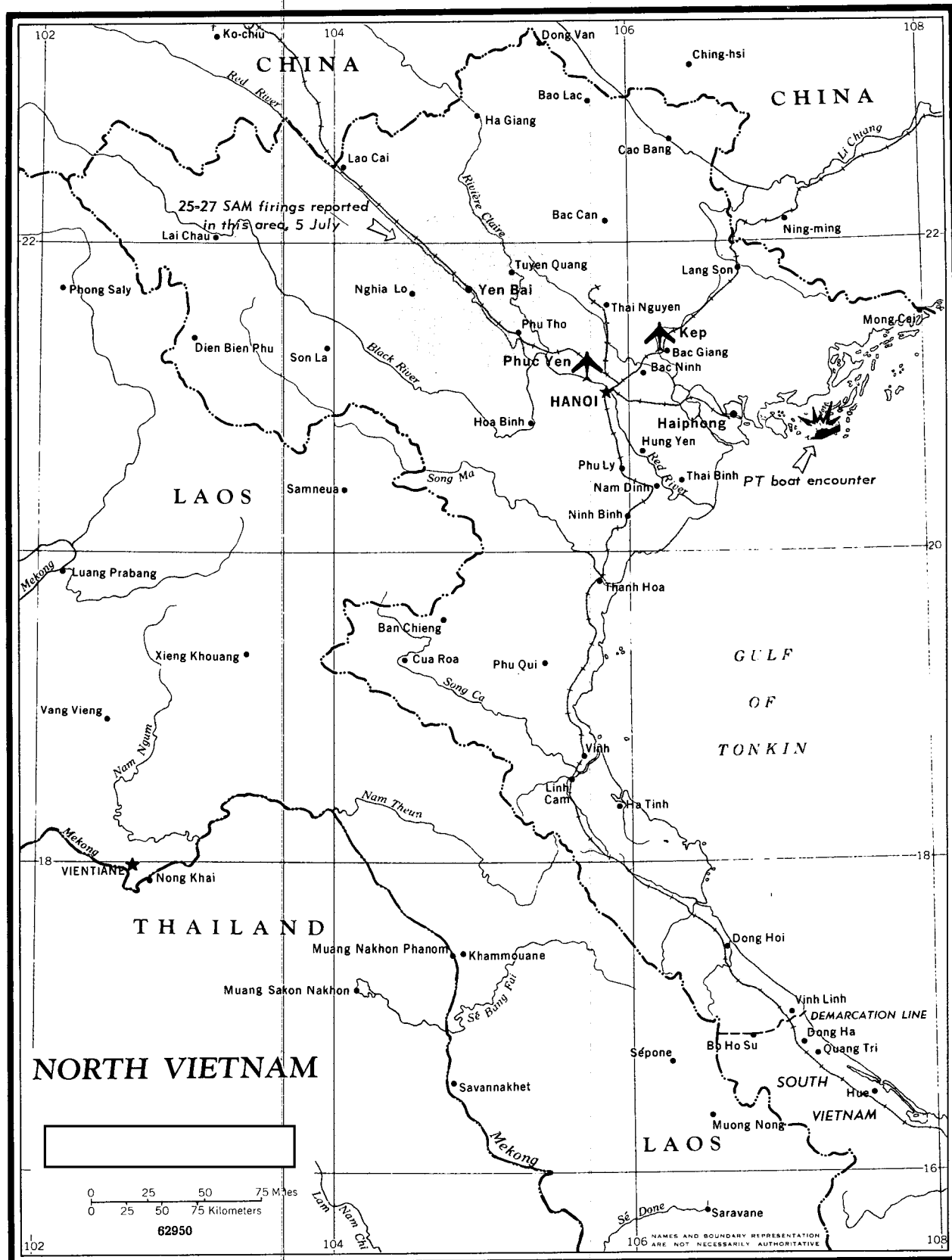
Latest Assessment of Economic Situation

5. US officials feel that further price adjustments are probable, as a continuing reaction to devaluation of the piaster on 18 June. The situation in general is characterized as fluid. Wholesale prices, which have increased by a current median level of 25 percent, will probably undergo subsequent fluctuations.

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III. MILITARY DEVELOPMENTS IN NORTH VIETNAM

1. In seven separate encounters on 5 July, US pilots reported that a total of 25-27 missiles was fired at them. All were unsuccessful. The firings took place within a 34-mile circle of Yen Bai.

2. SAM crews in North Vietnam have now fired slightly over 100 missiles at US aircraft since the last confirmed shootdown on 24 April. All of them have been unsuccessful.

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Another PT Boat Encounter

4. Two US Navy A4 Skyhawks on a PT-boat search shortly after midnight on 5 July (Saigon time) found two ships just south of the offshore islands some 38 miles east of Haiphong. The A4s dropped flares over the DRV ships and made a total of ten runs over them. Results of the attack are

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unknown, however. One of the A4s went down, presumably as the result of fire from one of the ships. The pilot was rescued the next morning by an SAR helicopter.

5. The DRV ships were identified as "large PT boats" by the attacking pilots. However, since many of the DRV's patrol, gunboat, and torpedo boats are about the same size and configuration, it is not possible to determine exactly what type ship was encountered. Hanoi is estimated to have only nine torpedo boats left in its inventory.

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IV. OTHER COMMUNIST MILITARY DEVELOPMENTS

1. There is nothing of significance to report.

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V. COMMUNIST POLITICAL DEVELOPMENTS

1. The North Vietnamese vice premier and politburo member, Pham Hung, writing in the May issue of the party theoretical journal Hoc Tap, has provided a candid analysis of the difficulties caused to Hanoi's economic program in 1965 by the US air strikes. Hung--taking a line similar to that of Premier Dong in April--pointed out that the major difficulties were the acceleration of the requirements placed upon the production capacities of the country, the strain that this kind of competition for scarce commodities places on the financial system, the damage done to North Vietnam's transportation system, and inflation.

2. Hung claimed, however, that despite these difficulties, many problems had been overcome in 1965, and that with great effort, improvements could be made in 1966. To improve the situation, Hung urged the "mobilization of every force available in the country." Complicating the difficulties incurred from the bombings, Hung claimed, was the "confused" and "inert" attitude of the North Vietnamese financial and economic bureaus toward the "new and complex" tasks. The problem of the coordination of local management with national leadership under wartime conditions has particularly plagued the Hanoi regime since the air strikes on North Vietnam began in March 1965.

3. Pham Hung admitted that under constant wartime pressure the Hanoi regime has had to scale down its ambitious plan to develop heavy industry. Instead, he stated, efforts would be made to improve those heavy industrial plants already built and to build new facilities to support agriculture, the power industry, the production of war-related construction material, and consumers "vital needs."

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4. The article also reflected the continuing problem of manpower utilization, which has been a major difficulty for Hanoi. Hung stated that there would have to be a reassignment of manpower, mainly from the agricultural sector, in order to satisfy the need for "millions of workers" for such tasks as combat, building roads, and industry. To offset this reassignment, Hung repeated earlier calls for the "urgent" supply of technical equipment--chiefly small, power-driven machines--and intensive cultivation methods. It is highly unlikely, however, that the regime will be able to sufficiently speed up this program, which, since its inception in early 1965, has only provided power equipment to some three percent of North Vietnam's 30,000 cooperatives. It is more likely that this loss of manpower will be chiefly offset by increased use of female workers and elderly people.

5. Pham Hung pointed to yet another area of concern to the regime--that of investment resources and monetary stability. He warned that the increasing demands placed on the country's agricultural economy by the war could cause the currency to depreciate. Hung pointed to the increase in the price of food on the free market as an example of one difficulty in this field. He offered no solution and even admitted that "some of our comrades express doubt that it will be possible to stabilize the situation in the forthcoming period." He characterized it as "a big and complex problem which needs further study."

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